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**K I L E M B E**


**COPPER COBALT LTD.**



**annual report**

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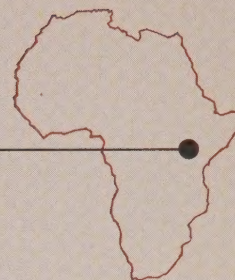
KILEMBE MINES LIMITED CONCENTRATOR AT KASESE, UGANDA

**KILEMBE COPPER COBALT LTD.**



# K I L E M B E

COPPER COBALT LTD.



## HEAD OFFICE

7 King Street East, Toronto, Canada

## OFFICERS

G. T. N. WOODROOFFE - - - - - President

P. N. PITCHER - - - - - Vice-President

A. C. CALLOW - - - - - Secretary

R. G. SAUNDERS - - - - - Treasurer

## DIRECTORS

H. J. FRASER

P. N. PITCHER

R. C. MOTT

J. T. MCWHIRTER

G. T. N. WOODROOFFE

## TRANSFER AGENTS AND REGISTRARS

CROWN TRUST COMPANY

302 Bay Street,  
Toronto, Ontario

393 St. James St. West,  
Montreal, Quebec

REGISTRAR AND TRANSFER COMPANY

140 Cedar Street - - - - New York 7, N.Y.

## BANKERS

CANADIAN IMPERIAL BANK OF COMMERCE  
Toronto, Ontario

## AUDITORS

CLARKSON, GORDON & Co., Toronto, Ontario

## SOLICITORS

TILLEY, CARSON, FINDLAY & WEDD, Toronto, Ontario

## ANNUAL MEETING OF SHAREHOLDERS

Dining Room No. 6, Main Mezzanine,  
Royal York Hotel, Toronto, Ontario,  
Thursday, April 28, 1966 at 10.30 a.m.



## HIGHLIGHTS

	<u>1965</u>	<u>1964</u>
Tons milled .....	1,029,310	989,207
Tons direct smelted .....	10,290	7,691
Total tons treated .....	1,039,600	996,898
Grade ore milled .....	1.96	2.17
Blister copper produced — long tons .....	16,870	17,971
Sales of metals .....	\$27,312,287	\$19,184,457
Operating profit .....	\$15,981,538	\$ 9,256,684
Net earnings .....	\$ 7,251,066	\$ 4,156,137
Earnings per share .....	\$1.87	\$1.07
Average selling price, copper per pound .	70.5¢	47.2¢



## REPORT OF THE DIRECTORS

### TO THE SHAREHOLDERS:

New records were established by your Company and its subsidiary, Kilembe Mines Limited, when the consolidated net earnings reached \$7,251,066 or \$1.87 per share compared to \$4,156,137 or \$1.07 per share in 1964.

The gross value of the copper production, which was sold at prices based on the London Metal Exchange quotations, reached the equivalent of \$27,312,287, an increase of \$8,127,830 over the 1964 figure of \$19,184,457. L.M.E. prices fluctuated from a low of £330 per ton in January to a high of £569 per ton in December, 1965.

The drop of 1,101 long tons in blister copper output to 16,870 long tons in 1965 from 17,971 long tons in 1964 was due to a lower grade of ore being mined and lower mine extraction resulting from a number of factors including a shortage of water brought about by drought conditions. Mine production was also adversely affected by the changeover from "open stope" mining to "cut and fill" stoping. Unit costs increased largely as a result of material increases in wages and fringe benefits and increased costs of consumable supplies.

Working capital increased by \$2,064,341 to \$3,235,211 partly as a result of the previously announced change in policy by which it was decided to build up a larger cash reserve in the parent company.

Dividends totalling \$1.20 per share were paid in 1965, compared with 75¢ per share in the previous year.

For the information of shareholders resident in the United States of America we report that no portion of the dividends paid by your Company in 1965 represents a return of capital, as the dividends received from Kilembe Mines Limited were paid out of the current earnings of that company.

### ORE RESERVES

The estimated ore reserves at year-end, compared with the previous year, were as follows:

	1965		1964	
	Tons	% Copper	Tons	% Copper
Proved .....	5,178,000	2.04	4,670,000	2.02
Probable .....	1,288,000	1.84	2,203,000	2.01
Total ore reserves .....	<u>6,466,000</u>	<u>2.00</u>	<u>6,873,000</u>	<u>2.02</u>

In addition to the above reserves, there are estimated to be 2,700,000 tons of possible ore grading 1.89% copper.

The new ore developed during the year was not sufficient to maintain ore reserves. More detailed information indicated additional ore in the probable ore class and more ore was recovered in certain areas than was shown in the reserves. Additionally, with favourable copper prices, some lower grade ore was milled and ore was broken in marginal grade areas which was not in the reserves.



## DEVELOPMENT AND EXPLORATION

In the Bukangama section of the mine, development work was toward more detailed delineation of the indicated ore zone. However, there was no material change in the ore reserve tonnage.

Development work of all classes carried out during the year totalled 66,484 feet compared with 65,376 feet in the previous year. Diamond drill footage totalled 65,118 feet against 73,438 feet in 1964. The results of the exploration and development work carried out during 1965 have not been encouraging.

## MINING

The mine delivered ore from the following sources:

	1965		1964	
	Short Tons	% Copper	Short Tons	% Copper
Northern Deposits . . . . .	268,761	3.10	264,940	3.18
Eastern and Stream Deposits	642,970	1.62	614,114	1.84
Bukangama . . . . .	125,362	1.26	114,556	1.59
	<u>1,037,093</u>	<u>1.96</u>	<u>993,610</u>	<u>2.17</u>

The "planned production" rate was not achieved due in part to a shortage of water caused by severe drought conditions. However, there was a modest increase in tonnage treated over that of the previous year.

## MILLING

	1965		1964	
	Tons	% Copper	Tons	% Copper
Ore milled . . . . .	1,029,130	1.92	989,207	2.17
Copper concentrates produced . . . . .	62,214	29.28	66,691	29.29
Recovery of copper in copper concentrates . . .	92.07%		92.05%	

Percentage of recovery was maintained during the year, despite the somewhat lower-grade ore treated in the latter part of the year.

## CAPITAL EXPENDITURES

Approximately \$2,954,000 was spent on construction and replacement of fixed assets during the year, the principal items being:

Kyunyaki Townsite — additional housing for African employees . . . . .	\$1,100,000
Mining equipment and surface haulageways . . . . .	850,000
Smelter equipment and plant modifications . . . . .	360,000
General equipment and buildings . . . . .	436,000



### GENERAL

There was no labour unrest in Uganda during the year, although there were some minor tribal disputes. Constructive legislation with respect to Trade Unions and Labour Disputes was enacted. Government ministers, who have visited Kilembe recently, have been impressed with the housing and other amenities that have been provided for the indigenous labour force.

It is with deep regret that we have to record the death of Sir George David Kamurasi Rudiki III, the Omukama of Toro, on December 21, 1965. This renowned Uganda statesman took a personal interest in the development of Kilembe Mines Limited since its inception and for some years served as an alternate director. His passing is not only a great loss to Uganda, but also to the Company. To his son and honourable successor, the Omukama Patrick David Matthew Ruramuhokya Kaboyo, our Company extends felicitations and best wishes for a fruitful reign.

Late in the year, Mr. H. S. McGowan retired as a director of your Company and Kilembe Mines Limited and as Chairman of the latter company. Mr. P. N. Pitcher was elected a director to replace Mr. McGowan and Mr. A. E. Pugsley was elected Chairman of Kilembe Mines Limited.

### ACKNOWLEDGEMENT

Your directors gratefully acknowledge the efficient services rendered during the year by Mr. Pugsley, Managing Director of Kilembe Mines Limited, and his staff.

On behalf of the Board,

G. T. N. WOODROOFFE,

President.

Toronto, Ontario,  
March 7, 1966.



## AUDITORS' REPORT

To the Shareholders of  
Kilembe Copper Cobalt Ltd.:

We have examined the consolidated balance sheet of Kilembe Copper Cobalt Ltd. and its subsidiary, Kilembe Mines Limited, as at December 31, 1965 and the statement of consolidated earnings and retained earnings for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the accompanying consolidated balance sheet and statement of consolidated earnings and retained earnings present fairly the financial position of the companies as at December 31, 1965 and the results of their operations for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Our examination also included the accompanying statement of source and application of consolidated funds which, in our opinion, when considered in relation to the aforementioned financial statements, presents fairly the sources and applications of consolidated funds of the company for the year ended December 31, 1965.

CLARKSON, GORDON & CO.,  
Chartered Accountants.

Toronto, Canada,  
March 2, 1966.



# K I L E M B E

## COPPER COBALT LTD.

(Incorporated under the laws of Canada)

AND ITS SUBSIDIARY

### KILEMBE MINES LIMITED

(Incorporated under the laws of Uganda)

## CONSOLIDATED BALANCE SHEET

### ASSETS

	1965	1964
<b>CURRENT:</b>		
Cash .....	\$ 1,337,410	\$ 1,752,513
Short term securities .....	1,936,344	600,000
Metal settlements receivable (note 2) .....	3,369,281	
Accounts receivable .....	252,017	228,675
Copper on hand and in process (note 2) .....	476,706	455,562
	<u>7,371,758</u>	<u>3,036,750</u>
 <b>FIXED AND INTANGIBLE ASSETS:</b>		
Mining concessions, at cost .....	479,778	479,778
Less accumulated amortization .....	388,036	340,058
	<u>91,742</u>	<u>139,720</u>
Plant and equipment, at cost .....	21,875,111	18,920,487
Less accumulated depreciation .....	13,091,072	10,931,705
	<u>8,784,039</u>	<u>7,988,782</u>
Development and preproduction expenses .....	7,404,195	7,404,195
Less accumulated amortization .....	5,968,872	5,228,453
	<u>1,435,323</u>	<u>2,175,742</u>
 MATERIALS AND SUPPLIES, at average cost .....	<u>3,297,419</u>	<u>2,127,361</u>
	<u><u>\$20,980,281</u></u>	<u><u>\$15,468,355</u></u>





**DECEMBER 31, 1965** (with comparative figures at December 31, 1964)

## LIABILITIES

	1965	1964
<b>CURRENT:</b>		
Accounts payable and accrued charges .....	\$ 1,252,343	\$ 1,358,970
Provision for leave pay and passages .....	180,913	133,160
Provision for Uganda mining royalties .....	1,542,591	373,750
Provision for Uganda income taxes (note 3) .....	1,160,700	
	<u>4,136,547</u>	<u>1,865,880</u>
 Minority shareholders' interest in subsidiary company (30%) .....	 <u>4,428,533</u>	 <u>3,785,908</u>
 <b>SHAREHOLDERS' EQUITY:</b>		
Capital —		
Authorized: 5,000,000 shares of par value \$1.00 each		
Issued: 3,877,027 shares .....	3,877,027	3,877,027
Contributed surplus .....	8,193,887	8,193,887
	<u>12,070,914</u>	<u>12,070,914</u>
Retained earnings (deficit) .....	344,287	(2,254,347)
	<u>12,415,201</u>	<u>9,816,567</u>
 On behalf of the Board:		
 G. T. N. WOODROOFFE, Director.		
 R. C. MOTT, Director.		
	 <u><u>\$20,980,281</u></u>	 <u><u>\$15,468,355</u></u>

See notes to consolidated financial statements.





**STATEMENT OF CONSOLIDATED EARNINGS AND RETAINED EARNINGS**

**For the Year Ended December 31, 1965**  
(with comparative figures for the year ended December 31, 1964)

	1965	1964
Metal sales .....	\$27,312,287	\$19,184,457
Deduct transportation, refining and selling expenses .....	2,233,500	1,733,780
Net proceeds from metal sales .....	<u>25,078,787</u>	<u>17,450,677</u>
Operating and administration costs:		
Development, mining, milling, smelting and mine office adminis- tration .....	9,038,379	8,156,084
Parent company administration .....	58,870	37,909
	<u>9,097,249</u>	<u>8,193,993</u>
Operating profit before the undernoted items .....	15,981,538	9,256,684
Amortization of mining concessions .....	47,978	47,978
Amortization of development and preproduction expense .....	740,419	740,419
Depreciation .....	2,159,367	1,863,904
Prospecting and exploration expenses .....	110,050	50,433
	<u>3,057,814</u>	<u>2,702,734</u>
Operating profit .....	<u>12,923,724</u>	<u>6,553,950</u>
Other income (expense):		
Interest on 6% debentures .....		(117,769)
Other interest (net) .....	139,158	61,802
Profit (loss) on conversion to Canadian dollars .....	29,909	(196,363)
	<u>169,067</u>	<u>(252,330)</u>
Profit before mining royalty and income taxes .....	13,092,791	6,301,620
Provision for mining royalty .....	1,467,416	373,750
Provision for income taxes (note 3) .....	1,160,700	
	<u>2,628,116</u>	<u>373,750</u>
Profit before minority interest .....	10,464,675	5,927,870
Less minority shareholders' interest in profit of subsidiary .....	3,213,609	1,771,733
Earnings for the year .....	7,251,066	4,156,137
(Deficit), beginning of year .....	(2,254,347)	(3,502,714)
	4,996,719	653,423
Deduct dividends paid of \$1.20 per share (1964 — 75¢) .....	4,652,432	2,907,770
Retained earnings (deficit), end of year .....	<u>\$ 344,287</u>	<u>\$ (2,254,347)</u>

See notes to consolidated financial statements



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1965

### 1. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Kilembe Mines Limited (incorporated under the laws of Uganda) which is 70% owned and is the only company in which Kilembe Copper Cobalt Ltd. has any material direct or indirect interest.

Most of the expenditures and liabilities of Kilembe Mines Limited have been incurred in pounds sterling (or in East African currency which is convertible to sterling). Assets and liabilities and revenues and expenses in currencies other than Canadian dollars are translated into Canadian funds on the following basis:

Fixed and intangible assets and share capital	At the rates of exchange prevailing when the transactions giving rise to such items occurred.
Accumulated provisions for depreciation and amortization	At rates of exchange based on those prevailing when the expenditures on the related fixed and intangible assets were made.
Other assets and liabilities	At the closing rates of exchange prevailing at the end of the year.
Revenues and expenses other than depreciation and amortization	At the average monthly rates of exchange in effect during the year.
Provisions for depreciation and amortization	At the rates of exchange prevailing when the expenditures on the related fixed and intangible assets were made.

### 2. INVENTORY OF COPPER

Copper on hand and in process consists of copper concentrates in process of production between the mill and the completion of the smelter operation and blister copper awaiting shipment. Inventories of copper concentrates are priced at the lower of cost or estimated realizable value, the latter based on the delivered price of refined copper less transportation, refining, selling and smelting costs. Blister copper produced by the smelter is sold under contract, and is transferred to "metal settlements receivable" as shipped. At December 31, 1964 advance payments received exceeded metal settlements receivable and this excess, \$81,032, was included in the balance sheet under accounts payable and accrued charges. Prior to shipment blister copper is included in copper inventory and priced at estimated realizable value; at December 31, 1965 blister copper in the inventory amounted to \$368,835.

### 3. INCOME TAXES

Kilembe Copper Cobalt Ltd. is exempt from payment of Canadian income tax while it maintains its status as a "foreign business corporation" under the provisions of the Income Tax Act (Canada).

The Government of Uganda has agreed that no income tax (other than mining royalty) should be payable by Kilembe Mines Limited until the whole of the capital invested, or to be invested, in the company shall have been repaid out of the profits. Under this agreement income taxes became payable for the first time in 1965 on a portion of that year's profit; if the entire 1965 profit had been taxable, income taxes would have been increased and earnings decreased by approximately \$1,200,000.





AND ITS SUBSIDIARY  
KILEMBE MINES LIMITED

**STATEMENT OF SOURCE AND APPLICATION OF CONSOLIDATED FUNDS**

**For the Year Ended December 31, 1965**

(with comparative figures for the year ended December 31, 1964)

	<u>1965</u>	<u>1964</u>
<b>FUNDS PROVIDED:</b>		
From operations —		
Profit for the year before minority interest .....	\$10,464,675	\$5,927,870
Add charges to operations which in themselves did not require a current outlay of cash:		
Amortization of mining concession .....	47,978	47,978
Amortization of development and preproduction expenditures .....	740,419	740,419
Depreciation .....	2,159,367	1,863,904
	<u>13,412,439</u>	<u>8,580,171</u>
 <b>FUNDS APPLIED:</b>		
Increase (decrease) in inventory of materials and supplies .....	1,170,058	(76,829)
Purchase of fixed assets (net) .....	2,954,624	1,901,736
Repayment of first mortgage debenture stock .....		1,506,931
Dividend paid to minority shareholders of Kilembe Mines Limited ..	2,570,984	1,028,052
Dividends paid to shareholders .....	4,652,432	2,907,770
	<u>11,348,098</u>	<u>7,267,660</u>
Excess of funds provided over funds applied during the year .....	2,064,341	1,312,511
Working capital, beginning of year .....	1,170,870	(141,641)
Working capital, end of year .....	<u>\$ 3,235,211</u>	<u>\$1,170,870</u>







